

## DOCUMENT RESUME

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The management of the Investment Insurance Program by the Overseas Private Investment Corporation (OPIC) was reviewed by GAO. In essence, the OPIC has not met the 1974 legislative directives to increase private participation in the insurance program and has made only limited improvement in reducing concentration of coverage in certain countries and in large business concerns. OPIC's efforts to attract private insurance companies have been disappointing. The main reason for this failure, as reported by the companies themselves, is their limited knowledge of political risk insurance. The congressional mandate to have the private insurance sector assume the direct insurance role by 1980 will probably not be met. Further, this mandate has placed OPIC in the position of substantially reducing its premium income and incurring large payments for reinsurance fees while only minimally reducing the risks for the bulk of its portfolio. Any alternative action regarding privatization would require either repeal or amendment of existing legislation. Only limited, if any, improvement has been made by OPIC in its efforts to reduce concentration in certain countries and to increase the monetary coverage of firms in the medium- and small-business range. It is also doubtful that efforts to encourage investment in the lesser developed countries will be successful. (DJM)

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UNITED STATES GENERAL ACCOUNTING OFFICE  
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STATEMENT OF  
J. KENNETH FASICK  
DIRECTOR, INTERNATIONAL DIVISION  
BEFORE  
SUBCOMMITTEE ON FOREIGN ASSISTANCE  
OF THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
ON  
OPIC'S MANAGEMENT OF THE INVESTMENT INSURANCE PROGRAM

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before you to briefly highlight the contents of our recently issued report on the Investment Insurance Program managed by the Overseas Private Investment Corporation (OPIC). The objective of our review and evaluation which resulted in this report was to determine how effective OPIC had been in implementing certain 1974 legislative directives and in correcting some of the weaknesses of the program that were pointed out in hearings held by the former Subcommittee on Multinational Corporations in 1973.

1

More specifically, we evaluated (1) the progress made to increase the participation of private insurance companies in the political risk insurance program, (2) the likelihood of the private insurance sector completely taking over the direct insurance role, (3) actions taken by OPIC to increase small and medium firm participation and to overcome the concentration of insurance in a few countries, and (4) the degree to which the OPIC's programs encouraged companies to make investments in the lesser developed countries that otherwise would not have been made.

#### PROGRESS AND PROGNOSIS FOR PRIVATIZATION OF POLITICAL RISK COVERAGE

We have concluded that only limited progress has been made to increase private participation in OPIC insurance programs. The participation to date is confined to coverages for expropriation and inconvertibility risk. There has been no participation to date by private companies in war risk insurance.

OPIC's efforts to attract private insurance companies have been disappointing. For example, 206 companies were contacted in 1976 of which only 105 responded and then only 6 of these decided to join the 15 companies already participating. During our review, we asked 20 private insurance firms for their opinions of privatization--12 that declined OPIC's invitation to participate, 5 that are now participating, and that dropped out after participating for only 1 year. Some of these companies are in the "Hartford Group"--companies located in Hartford,

Connecticut, that are considered to be the leaders of the insurance industry. One former participant declined to give us its opinion.

The 12 insurers declined OPIC's invitation to join the Group generally for the same reasons. The main reason cited was their limited knowledge of political risk insurance; most of them believe that conventional insurance principles cannot be applied to expropriation and inconvertibility losses because of the political factors involved. The capacity to undertake additional markets, especially in unfamiliar areas, has also prohibited, or at least delayed participation in the Group. Recent underwriting losses and declining stock market values, in which private insurers have sizable investments, have contributed to the reduction of surpluses which govern the amount of insurance that may be written. Thus, at this time, most of the insurers prefer to limit their activities to conventional domestic coverages.

In view of conditions such as these, we concluded that it is highly unlikely that the congressional mandate to have the private insurance sector completely take over the direct insurance role by 1980 will be met. Further, it is evident that this mandate has placed OPIC in the position of substantially reducing its premium income and its incurring large payments for reinsurance fees while at the same time only minimally reducing the risks for the bulk of its portfolio.

In view of the limited results to date, the future of OPIC's political risk insurance program involves considering four alternatives--

first, continue to try for complete privatization but provide deadlines more realistic than 1980; second, modify the private participation provisions by recognizing the unlikelihood of ever being able to achieve 100 percent privatization; third, abandon private participation; and fourth, dissolve OPIC. Each of these actions would require either the repeal or amendment of existing legislation. Further, the dissolution alternative would require that existing contracts be assigned to another agency for liquidation.

#### COUNTRY CONCENTRATION AND SIZE OF INDUSTRIES COVERED

OPIC has only made limited, if any, improvement in its efforts to reduce its concentration of coverage in certain countries and to increase the monetary coverage of firms in the medium and small business range.

We reported in 1973 that OPIC's predecessor, the Agency for International Development, had permitted its insurance coverage to concentrate in a relatively few countries. OPIC assumed its predecessor's insurance portfolio. Even though concentration levels have been reduced in some countries, OPIC's insurance portfolio continues to be concentrated in a limited number of countries such as Brazil, Jamaica, Korea, and the Philippines. For example, the portfolio coverage in Brazil for inconvertibility, expropriation, and war risk increased from 7.9, 6.1, and 6.8 percent in 1972 to 21.9, 22.3, and 11.9 in

1976, respectively. In Korea, such coverage increased from 11.0, 8.0, and 11.7 percent in 1972 to 11.6, 14.9, and 13.9, respectively in 1976. This is due, in part, to the long-term nature of existing contracts. More importantly, even though OPIC's policy is to limit concentration in any one country, it continues to insure investments in countries of high insurance concentrations. The tendency to do so is influenced by factors such as the limited investment opportunities in many of the lesser developed countries and the corresponding desire by investors to start projects in more industrialized countries, such as Brazil.

Further, due partially to the existing demand, OPIC continues to provide the majority of its insurance to the larger "Fortune 500" corporations, which comprise the majority of those seeking OPIC insurance. Since December 1973, about 83 percent of OPIC's insurance coverage has gone to these firms. Three companies received 29 percent, 29 percent, and 29 percent of the total insurance issued in 1974, 1975, and 1976, respectively.

The success of OPIC's efforts to encourage investment in the lesser developed countries is minimal principally because opportunities for viable or profitable projects are limited in such countries. Also, since the program promotes, as well, investment opportunities in more developed countries, any future success appears to depend on the willingness of potential investors to select the less desirable alternatives. It is doubtful that this will occur in most instances.

While progress has been less than that desirable, OPIC has attempted to reduce its concentration in certain countries. It has also attempted to encourage more small and medium firms to become involved in investment programs in the less developed countries.

Mr. Chairman, this concludes my statement. We shall be pleased to answer any questions that you or other members of the Subcommittee may have.